

NEW JERSEY OFFICE OF THE INSPECTOR GENERAL

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OIG Reports on SJTA Internal Controls and Compliance with State Regulations and Executive Orders

Trenton – The Office of the Inspector General (OIG) today released the report of its review of the South Jersey Transportation Authority's (SJTA) internal controls and compliance with State regulations and executive orders governing its operations. OIG's assessment of SJTA included an analysis of the authority's organizational structure, management functions, reporting relationships and operating practices. Upon initiating its review, OIG immediately discovered that SJTA, an authority with approximately \$91 million in revenues and \$23 million in unrestricted reserves as of 2008, lacked sufficient controls and oversight in many important areas, leading to gross waste and mismanagement of State funds.

Many of these abuses had gone on for years, and but for OIG's review, it is unlikely they would have been found. In accord with OIG's policy, as deficiencies were identified during OIG's review, they were immediately brought to the attention of appropriate SJTA management so that corrective action could be taken and further waste and abuse prevented. Although SJTA executive management initially resisted OIG's review and recommended corrective actions, with the appointment of new SJTA executive management and Board leadership, OIG encountered greater cooperation and enthusiasm for strengthening SJTA's internal controls. Thereafter, the corrective actions OIG recommended were implemented.

"When OIG began its review, almost everywhere we looked, we found either an absence of policies and procedures, weak and antiquated policies and procedures that were ignored, and a disregard for the value of public assets," Inspector General Cooper said. "These deficiencies and this attitude contributed to a waste of resources at SJTA for several years. New leadership understood the significance of the findings and the importance of addressing them."

Among OIG's many findings were:

- SJTA had failed to properly manage three outside law firms that were paid exorbitant fees for minimal work.
 - Three firms were each paid \$30,000 a year retainers for attending a monthly meeting with minimal preparation. OIG questioned the reasonableness of this cost, and SJTA almost immediately lowered the retainers to \$10,000 per year and increased the amount of work required. Shortly thereafter, SJTA eliminated the retainers.
 - Thousands of dollars in double billing and other errors were undetected because SJTA management performed only cursory reviews of law firm invoices. When OIG pointed out the errors, the law firms adjusted the invoices.

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- SJTA improperly classified an outside attorney as an employee and created a false business record in order to issue a payroll check for the sole purpose of allowing this attorney to receive pension credits. (Read more about this in OIG’s “Report of Investigation Professional Services Provider Enrollment in PERS” issued December 15, 2009.)
- SJTA procedures allowed personal use of authority-issued vehicles.
- SJTA had no procedures for the purchase, assignment, or use of cellular phones, leading to thousands of dollars of waste in equipment and use charges.
- There was no inventory system tracking computer equipment, cellular telephones, automobile parts, tools, or any other SJTA equipment.
- SJTA lacked a procedure to ensure the proper use of petty cash and imposed only loose restrictions on its employees’ use of an authority-issued credit card. This combined with the absence of an inventory enabled the perfect cover for lost or stolen equipment that could be easily replaced without detection.
- SJTA management did not enforce compliance with executive orders and Conflict of Interest Laws.
 - SJTA management did not file required requests for approval of their own outside employment nor assure that their employees filed the requests.
 - SJTA management did not appoint an ethics liaison officer (ELO) until three years after required to do so by executive order, and then performed no oversight to assure that the ELO performed mandated responsibilities.
 - The ELO did not disclose her own outside employment as a campaign treasurer for several years; disclose the casino-related employment of several SJTA staff (both types of employment are specifically prohibited), and require her spouse to file a request for approval of outside employment.

Each of these OIG findings and others were corrected by new SJTA leadership. Inspector General Cooper recommends that SJTA management implement continual monitoring and oversight of its internal controls to ensure the effective use of its resources and that the implemented corrective actions are operating as desired. Similarly, she recommends that SJTA strengthen its Internal Compliance Program and consider an internal auditor model that is independent of SJTA management to assure ongoing robust internal controls that reinforce appropriate behavior and deter the reemergence of old habits that in the past led to out of control practices with little to no management oversight.

OIG’s review was undertaken pursuant to Executive Order No. 41 (Codey 2005) that directed OIG to “assess the controls that are in place at every authority and to make recommendations concerning what uniform practices and procedures should be established for all State authorities.” OIG is continuing its review of authorities.

A full version of the report is available on OIG’s web site, www.state.nj.us/oig.